Supreme Court, U.S.
FILED

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No. _____

IN THE

Supreme Court of the United States

IDG, INC. AND R. BRENT JOHNSON,
Petitioners,

v.

CONTINENTAL CASUALTY COMPANY,
TRANSPORTATION INSURANCE COMPANY,
AND VALLEY FORGE INSURANCE COMPANY,
Respondents.

On Petition For A Writ Of Certiorari To The United States Court Of Appeals For The Tenth Circuit

PETITION FOR A WRIT OF CERTIORARI

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QUESTIONS PRESENTED FOR REVIEW

The United States Court of Appeals for the 10th Circuit required petitioners IDG, Inc. and R. Brent Johnson (insureds) to show a causal connection between the insureds' advertising activities and actual harm alleged to have been suffered by the underlying plaintiff Darrell Burson (Burson) as a condition precedent to entitlement to defense costs from their insurer CNA under the terms of their insurance contract. Finding this requirement unsatisfied (absence of evidence or allegation of actual harm suffered by Burson as a direct consequence of the insureds advertising activities), the 10th Circuit affirmed the District Court, denying the insureds' claims for defense costs brought against CNA. The 10th Circuit also placed on the insureds the burden to show that the insurer was aware of or should have been aware of facts to support the possibility of insurance coverage. These holdings raise two substantial questions that warrant review by this Court:

1. Whether it was error for the 10th Circuit to require the insureds to show some allegation or evidence of actual harm suffered by the underlying plaintiff directly connected to the insureds' advertising activities as a condition to coverage when the underlying plaintiff is not required to show actual harm in order to recover statutory damages for copyright infringement arising out of the insureds' advertising activities.

2. Whether the 10th Circuit imposed a duty on the insureds to investigate and disclose to their insurer which is greater than and in conflict with the insureds' cooperation duty imposed under Oklahoma law as described in *First Bank of Turley v. Fidelity and Deposit Ins. Co. Of Maryland*, 928 P.2d 298 (Okla. Sup. Ct. 1996)

PARTIES TO THE PROCEEDING

The following individuals and entities are parties to the proceeding in the Court below:

IDG, Inc.

R. Brent Johnson

Continental Casualty Company

Transportation Insurance Company

Valley Forge Insurance Company

STATEMENT PURSUANT TO RULE 29.6

Petitioner, IDG, Inc. states that it has no corporate parent, and that no publicly held company owns 10% or more of IDG, Inc.'s stock.

Petitioner, R. Brent Johnson is an individual.

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PETITION FOR A WRIT OF CERTIORARI

Petitioners IDG, Inc. and R. Brent Johnson respectfully pray that a writ of certiorari be issued to review the judgment of the United States Court of Appeals for the 10th Circuit in this case. The 10th Circuit imposed a requirement on the insureds seeking to enforce the insurer's "duty to defend", to show an allegation or evidence of actual injury suffered by the underlying copyright infringement claimant that is causally connected to the insured's advertising activities. This "actual harm" requirement is plain error because an underlying copyright infringement claimant is not required to allege or prove actual harm or loss in order to recover statutory damages from the insured for copyright infringement occurring in the course of the insureds' advertising activities.

The 10th Circuit also imposed a duty on the insureds to investigate and disclose to their insurer which was greater than and in conflict with the insureds' cooperation duty imposed under Oklahoma law as described in *First Bank of Turley v. Fidelity and Deposit Ins. Co. Of Maryland*, 928 P.2d 298 (Okla. 1996).

OPINION BELOW

The opinion of the United States Court of Appeals for the 10th Circuit is reported at *IDG, Inc. v. Continental Casualty Co.*, 275 F.3d 916, (10th Cir. 2001).

JURISDICTION

1. The Judgment or Order sought to be reviewed was entered on December 26, 2001. 15a

2. The Petition For Rehearing And Petition For Rehearing En Banc was denied by Order entered January 23, 2002. 37a

3. Jurisdiction to review the Judgment or Order sought to be reversed is conferred upon the United States Supreme Court by 28 USCS §1254(1).

4. The United States District Court for the Northern District of Oklahoma had subject matter jurisdiction by virtue of 28 U.S.C. §1332 (Diversity). There was complete diversity between the parties. IDG, Inc. was an Oklahoma Corporation with its principal place of business in Oklahoma. Johnson was a citizen of the State of Oklahoma. Defendants (collectively CNA) were corporations incorporated in Illinois or Pennsylvania, with their principal place of business in Illinois). The amount in controversy exceeded $75,000.

5. The United States Court of Appeals for the 10th Circuit had jurisdiction over the appeal by virtue of 28 U.S.C. §1291. The appeal related to a final judgment of the United States District Court for the Northern District of Oklahoma. The District Court entered judgment dismissing all claims as to all parties on December 26, 2000. Johnson filed a Notice of Appeal on January 5, 2001, within the time permitted by FRAP 4(a)(1).

STATUTES INVOLVED

17 U.S.C. §504(c)(1) provides:

> (c) Statutory Damages.--
> (1) Except as provided by clause (2) of this subsection, the copyright owner may elect, at any time before final judgment is rendered, to recover, instead of actual damages and profits, an award of statutory damages for all infringements involved in the action, with respect to any one work, for which any one infringer is liable individually, or for which any two or more infringers are liable jointly and severally, in a sum of not less than $750 or more than $30,000 as the court considers just. For the purposes of this subsection, all the parts of a compilation or derivative work constitute one work.

17 U.S.C. § 106 provides:

> Subject to sections 107 through 121, the owner of copyright under this title has the exclusive rights to do and to authorize any of the following:
>
> (1) to reproduce the copyrighted work in copies or phonorecords;
>
> (2) to prepare derivative works based upon the copyrighted work;
>
> (3) to distribute copies or phonorecords of the copyrighted work to the public by sale or other transfer of ownership, or by rental, lease, or lending;

> (4) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and motion pictures and other audiovisual works, to perform the copyrighted work publicly;
>
> (5) in the case of literary, musical, dramatic, and choreographic works, pantomimes, and pictorial, graphic, or sculptural works, including the individual images of a motion picture or other audiovisual work, to display the copyrighted work publicly; and
>
> (6) in the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.

STATEMENT OF THE CASE

The Petitioners (collectively "Johnson" or "insureds") maintained insurance policies with the Respondent insurance companies (collectively "CNA" or "insurer") for *inter alia*, defense coverage for claims related to copyright infringement occurring in the course of the insureds' advertising activities. 20a-22a Johnson alleged that CNA breached its insurance contract by refusing to pay the cost to defend Johnson incurred in the copyright infringement lawsuit brought by Darrell Burson[1] ("Burson" or "underlying plaintiff"). 17a-18a

The District Court found that software programs Burson claimed ownership to were regularly copied and

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[1]Darrell Burson was the "*underlying plaintiff*" referenced in the published opinion of the 10th Circuit.

distributed (Burson alleged this was done without his authorization) to prospective customers of Johnson as Johnson's method of advertising. 26a

CNA's insurance policies define advertising injury to include claims asserted against the insured for copyright infringement committed in the course of advertising. 20a-21a The CNA policies state that CNA "will pay those sums the insured becomes legally obligated to pay as damages . . . to which this insurance applies". 20a The policy also states: "We[2] will have the right *and duty* to defend any 'suit' seeking those damages." 20a (Emphasis added)

Burson claimed Johnson committed copyright infringement by copying and distributing software without authorization. Burson did not limit his claim to infringement for copying and distributing in the context of a sale, but sought to enjoin Johnson from in any way copying and distributing copies of the program. 15a, *n.* 7

One of the ways Johnson copied and distributed software was to distribute evaluation copies of the software to potential customers to advertise Johnson's software products. 26a-27a

On cross-motions for summary judgment the District Court found "no potential for coverage under the CNA Commercial General Liability and umbrella policies . . . or reasonable expectation thereunder, that requires CNA" to defend or indemnify IDG and Johnson in the Burson cases and granted CNA's Motion For Summary Judgment dismissing the Johnson suit. 35a

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[2]Referring to the insurer CNA.

The United States Court of Appeals for the 10th Circuit affirmed the District Court's judgment, holding there was insufficient evidence to establish a causal connection between the alleged advertising activity of distributing copies of the infringing product and *actual* damages to the underlying plaintiff [Burson]. 12a-13a. The 10th Circuit also held Johnson did not provide the insurer sufficient data for CNA to ascertain that Burson's claims related to Johnson's advertising activities. This issue was raised by the Circuit Court itself, for the first time on appeal and not by CNA. 13a-14a

REASONS FOR GRANTING THE PETITION

"Advertising injury" insurance coverage is frequently litigated in federal and state courts. The scope of "advertising injury" coverage remains unsettled. See "*Why Neither Side Has Won Yet: Recent Trends in Advertising Injury Coverage*", R. Antongnini, 65 Defense Counsel Journal 18 (January 1998). See also, *VSX Corp. v. Adriatic Insurance Co.*, 99 F.Supp. 2d 593, 621-622 (W.D. Penn. 2000). The 10th Circuit's published opinion has added to this uncertainty and created a "catch-22" requiring the insured to prove the existence of actual harm allegedly suffered by the underlying plaintiff when the underlying copyright infringement plaintiff need not allege nor prove actual harm, in order to recover statutory damages for each act of infringement.

Under copyright law, the underlying plaintiff seeking copyright infringement damages may elect at any time before judgment is entered to receive statutory damages (instead of actual damages and without proof of actual damages) for each act of infringement. 17 U.S.C. 504(c)(1).

The 10th Circuit misunderstood Oklahoma law in its reading of *First Bank of Turley v. Fidelity and Deposit Ins. Co.*

Of Maryland, 928 P.2d 298 (Okla. 1996). The 10th Circuit's Opinion creates a conflict between Courts of the 10th Circuit and the Oklahoma Supreme Court.

I. Whether it Was Error for the 10th Circuit to Require the Insureds to Show Some Allegation or Evidence of Actual Harm Suffered by the Underlying Plaintiff Directly Connected to the Insureds' Advertising Activities as a Condition to Coverage When the Underlying Plaintiff Is Not Required to Show Actual Harm in Order to Recover Statutory Damages for Copyright Infringement Arising out of the Insureds' Advertising Activities

The 10th Circuit erred in requiring Johnson to show a "causal connection" (nexus) between *actual* harm alleged (or potentially suffered) by Burson and Johnson's advertising activities as a condition to coverage for defense costs. Burson had no duty to prove actual harm to be entitled to statutory damages for any claim of copyright infringement arising from Johnson's advertising activities. A copyright owner may, at any time prior to entry of judgment in an underlying copyright infringement case, elect to recover a statutory minimum damage amount instead of actual damages for <u>each</u> act of infringement. 17 U.S.C. §504(c)(1) See also, *Hotaling v. Church of Jesus Christ of Latter-Day-Saints*, 118 F.3d 199 (4th Cir. 1997). "Each act of infringement is a distinct harm giving rise to an <u>independent claim</u> for relief". *Hotaling*, at 204. (Emphasis added) Burson had no statutory requirement to allege or prove a "causal connection" between Johnson's advertising activities (or any other act of copyright infringement) and "actual harm". 17 U.S.C. §504(c)(1) only requires Burson show at least <u>one</u> act of unauthorized distribution of his copyrighted work to recover statutory damages. If Burson could prove any unauthorized act of

distribution of his copyrighted program in the context of Johnson's advertising activities each act represents an independent claim for statutory damages. The District Court found (1) Burson sued for copyright infringement and (2) Johnson was distributing the alleged infringing software in the context of advertising. 26a-27a This potential for liability triggers the duty to defend under *First Bank of Turley*, supra.

Johnson's alleged acts of infringement occurring outside the context of "advertising" are not relevant to acts of infringement occurring within the context of "advertising" since each discrete act of infringement is considered an independent claim. If the copyright owner elects statutory damages before judgment is entered, each discrete act of copyright infringement is added by numerical count, multiplied times (at the very least) the minimum amount (required to be assessed) by statute and the sum equals the monetary judgment to be entered. Because 17 U.S.C. §504(c)(1) allows the copyright owner to delay this election to demand statutory damages until immediately before judgment is entered (and after trial of the case has concluded) the alleged infringer (Johnson here) remains potentially liable for a statutory damage award (without any need for any allegation or proof of actual damage or harm) throughout the case.

It was error for the 10th Circuit to require Johnson prove an "extra" element of a potential for actual harm (connected to Johnson's advertising activities) in order to gain insurance coverage because no similar element is imposed on the underlying plaintiff. It was enough for Johnson to show that Johnson was potentially liable to Burson for statutory damages arising from Johnson's advertising activities in order to be entitled to a defense to be paid for by CNA under the insurance policy.

The 10th Circuit found that the mere fact Johnson advertised a product for which Burson claimed copyright infringement "did not *cause* [the underlying plaintiff's] injuries". 14a. Causation in the context of copyright infringement (relative to statutory damages) is not whether the advertising activity caused actual harm but whether the event of infringement occurring in the context of advertising would *cause* statutory damages to be awarded. The *causal* link here is not between "an act" and "potential resulting harm" but rather is between "an act" and "resulting potential entitlement to statutory damages". Johnson's distribution of evaluation copies of the disputed software in the context of advertising products is sufficient standing alone to support a claim by Burson for statutory damages pursuant to 17 U.S.C. §504(c)(1) for each discrete "event or act" of distribution. Burson may recover statutory damages separately for each act of infringement regardless of whether one act was copying, another arose from a sale or lastly for an act of distribution of promotional examples of the work in the course of Johnson's advertising. Contrary to the 10th Circuit's decision, the second prong of the *Novell*[3] test must be deemed satisfied [or entirely dispensed with in a copyright infringement related case] if the underlying plaintiff has alleged copyright infringement, and acts of infringement (unauthorized distribution, displaying or lending of a copyrighted work) have been demonstrated to have occurred in "the course of the insureds' advertising" activity for which the underlying plaintiff may potentially recover statutory damages. See 17 U.S.C. §106 (3), (5) and §504(c)(1). It was factually undisputed that Johnson was distributing evaluation copies of the alleged copyrighted computer software to prospective customers as Johnson's method of advertising. The 10th Circuit's reliance on Burson's federal complaint to support

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[3]*Novell, Inc. v. Federal Ins. Co.*, 141 F.3d 983 (10th Cir. 1998)

its conclusion that Burson was only suing for infringement related to sales and not Johnson's advertising activities is misplaced for two reasons. (1) Burson's complaint as drafted did not preclude him from recovering statutory damages for acts of infringement occurring in the course of Johnson's advertising nor from presenting evidence on that issue at trial. A federal complaint and the pleading requirements of FRCP 8 do not constrain a plaintiff so narrowly. *Swierkiewicz v. Soreman*, 122 S.Ct. 992 (2002). (2) Oklahoma law does not limit the analysis for the potential of liability to the pleadings, but must be determined from the underlying facts available from the insured and other sources. *First Bank of Turley* at 303.

The 10th Circuit's reliance on *Farmington Casualty v. Cyberlogic Tech.*, 996 F. Supp. 695 (E. D. Mich. 1998) is misplaced. *Farmington* adopted the position: "when the claim for infringement exists irrespective of the advertising activities, the claim for defense must fail". *Farmington* at *n.* 17. *Farmington* inferred that a copyright infringement claim for activities outside the context of advertising may negate claims for infringement arising directly from advertising activities. The *Farmington* Court overlooked the fact that each act of infringement is an independent claim and each is separately compensable. The District Court in *Farmington*, although having a copyright case under consideration, applied trademark law to support its analysis. This is particularly evident where the *Farmington* Court rejects the idea that a claim could be supported by merely "displaying" a product. *Farmington* at 704. However, merely "displaying" a copyrighted work without authorization is an act of copyright infringement entitling the owner to recover statutory damages. 17 U.S.C. §§106(5) and 504(c)(1). Whether separate acts of infringement occurred independent of or preceding infringement "in the course of advertising" (such as sales) is of no consequence in

the context of copyright law since each separate "alleged act of infringement" is an independent claim and may support a separate award for statutory damages for each such claim. The traditional notion of causation (wrongful conduct resulting in entitlement to damages, lost profits or disgorgement of profits from the wrongdoer) does not fully apply in every instance in copyright cases where the claimant may elect to recover (at his option before final judgment is entered) a minimum statutory damage award for each instance of infringement. *Columbia Pictures Television, Inc. v. Krypton Broadcasting of Birmingham, Inc.*, 259 F.3d 1186, 1194 (9th Cir. 2001).

The 10th Circuit placed emphasis on Burson's allegation of copying, and substantial monetary damages. 12a It was error to deny Johnson coverage simply because Burson alleged and may have also potentially recovered monetary damages against Johnson for copyright infringement occurring outside the context of Johnson's advertising activities (i.e. copying). The 10th Circuit appears to confine Johnson to the precise statements in Burson's complaint however Burson is <u>not</u> similary confined by that complaint. The 10th Circuit's view of the pleadings as narrowly confining the claim is contrary to *Swierkiewicz*, supra. Burson's entitlement to recover for each discrete act of infringement outside the context of advertising activities (non-covered occurrence) does not preclude entitlement to also recover statutory damages for each discrete act of copyright infringement occurring within the context of Johnson's advertising activities. They must each be considered separately. The "gravaman" of Burson's claims is a multitude of independent claims for infringement one having no greater significance than another (in the context of evaluating the duty to defend).

The 10th Circuit misperceived copyright law in its search for anything in the pleadings or other relevant source wherein there was any connection linking Johnson's advertising practice with *actual* injuries suffered by Burson. 13a As referenced above, Burson need not allege nor prove actual damage. Burson may assert a claim for "statutory damages" long after the pleading and pretrial stages have passed. A search of the *pleadings* is but one of several places the insurer must look to see if a potential for liability exists triggering the insurer's duty to defend. *First Bank of Turley v. Fidelity and Deposit Ins. Co. of Maryland*, 928 P.2d 298 (Okla. 1996) Here, the potential is self apparent in the 10th Circuit's own opinion. 11a, *n.* 5.

First Bank of Turley v. Fidelity and Deposit Ins. Co. of Maryland, 928 P.2d 298 (Okla. 1996) requires the insurer to defend if a potential for coverage exists and without regard to the outcome of the underlying suit. *First Bank of Turley* at 303-304. The potential continually existed throughout the life of Burson's infringement suit(s) that Burson could have succeeded in proving copyright ownership and unauthorized distribution in the course of Johnson's advertising and recover statutory damages without proof of any actual loss.

Pursuant to Fed. R. Civ. P. 8(a) and 17 U.S.C. §106(5) Burson need only allege that (1) he is the owner of the copyrighted work and (2) his copyrighted work was "distributed" without authorization to support a claim for copyright infringement, and be potentially entitled to statutory damages. Burson is not required to plead facts establishing a prima facie case. *Swierkiewicz* at 997. Allegations of monetary damage and lost profits for which the 10th Circuit emphasized may be abandoned at the end of the case and immediately prior to judgment being rendered. Here, little reliance should be placed on something so easily discarded.

The absence of any evidence linking "advertising activities" with calculable actual economic loss or actual injury is not surprising in a copyright case where statutory damages are frequently sought rather than the copyright owner undertaking the costly burden of proving damages with accountants and expert witnesses as to each discrete event of unauthorized displaying, distributing, or lending etc. See *Columbia Pictures Television, Inc. v. Krypton Broadcasting of Birmingham, Inc.*, 259 F.3d 1186, 1194 (9th Cir. 2001)[4] "Causation" or "nexus" between activities of advertising and some directly resulting calculable actual harm suffered must not be an element or "test" of whether there is advertising injury coverage (in the context of an underlying copyright infringement claim).

A better test in the context of an underlying copyright infringement claim would be whether there is evidence to suggest that Johnson engaged in some act (or may have engaged in some act), "in the course of advertising"[5], that may potentially entitle the underlying plaintiff to recover statutory damages for copyright infringement. This "better test" is satisfied here.

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[4]"... the Copyright Act provides a plaintiff the option of electing either statutory damages or actual damages. 17 U.S.C. §504(a) (2001). In this case, Columbia elected to seek statutory damages. A plaintiff may elect statutory damages "*regardless of the adequacy of the evidence offered as to his actual damages and the amount of the defendant's profits*." *Columbia Pictures* at 1194. Emphasis added.

[5]Terminology of the insurance policy.

II. The 10th Circuit Imposed a Duty on the Insureds to Investigate and Disclose to Their Insurer Which Is Greater than and in Conflict with the Insureds' Cooperation Duty Imposed under Oklahoma Law as Described in *First Bank of Turley V. Fidelity and Deposit Ins. Co. Of Maryland*, 928 P.2d 298 (Okla. Sup. Ct. 1996)

The 10th Circuit misunderstood the "duty" to investigate and report described in *First Bank of Turley v. Fidelity and Deposit Ins. Co. of Maryland*, 928 P.2d 298 (Okla. 1996). In *First Bank of Turley*, the Court said:

> "It is the insured's sole duty to give its insurer timely and adequate notice of a third-party claim [fn19] to aid the insurer in the discovery of facts bearing on coverage. Once an insurer receives notice of a claim and proof of loss, the insurer should evaluate the matter and make a reasonable investigation to determine whether a potential for coverage exists. [fn20] An insured in turn has an obligation to cooperate with the insurer, which is both contractual [fn21] and implied in law." [fn22]

First Bank of Turley, at 304 (emphasis added)

An insurer is in a better position to evaluate the complexities of insurance coverage and know what factual issues should be sought out (from the claims, the insured and other sources) that may bear on coverage. The decision by the District Court shows repeated communication by Johnson to the insurance carrier. 23a-24a Johnson was never faulted by CNA for neglecting the insured's duty to cooperate or respond to any question or request for information during the insurer's

investigation. The issue of whether Johnson made adequate disclosure to the insurer was raised for the first time by the 10th Circuit Panel itself. The issue of adequate disclosure had not previously been raised or complained of by CNA. CNA never claimed Johnson failed to provide any information CNA requested, or failed to fully cooperate. The burden to investigate and learn essential facts to make a well reasoned decision on coverage - ***is on the insurer***, not the insured. The 10th Circuit has now created a new defense for insurance companies, namely that the carrier may now argue that it correctly chose not to defend because the insured failed to volunteer a critical piece of information affecting coverage even though the insurer never inquired about that information prior to being sued by its insured. The relationship between insurer and insured is many times adversarial, where the carrier is motivated (in order to save money) to shun knowledge and reject claims for coverage. The insured must not be compelled to retain counsel, investigate the facts, interpret policy language and "make the case" for coverage before it is entitled to coverage for defense of a claim. That duty rests with the insurer. The Circuit Court's decision gives a boost to the insurer's desire to avoid learning information that would support coverage and lead to the expenditure of defense costs by the insurer.

CNA readily concedes that it only asked what it now perceives as the critical questions about the advertising activities of Johnson and whether they could be linked to copyright infringement and advertising injuries, "after" suit was filed against CNA. The failure of CNA to ask critical questions is not a defense to coverage, but rather proof the insurer conducted an inadequate investigation after a defense was demanded by Johnson.

Whether the insurer neglected its duty to adequately

investigate and learn during the course of the Burson suit what it later learned in the course of the suit brought against the insurer (by Johnson) was not an issue for which evidence was presented or litigated before the District Court and was not an issue on which the District Court made its determination of non-liability favoring the insurer. Moreover, CNA never asserted nor raised as an issue in defense before the District Court that (1) information about the advertising activities of Johnson had been withheld, or (2) that it had denied the defense because of a lack of cooperation from Johnson or (3) that the information about these advertising activities was "unavailable" from the insured or other sources at the time the defense was rejected. It was error for the 10th Circuit to fault Johnson for not volunteering earlier, rather than faulting CNA for not asking earlier. It was error for the 10th Circuit to create and decide a defense in favor of CNA when Johnson had no opportunity to present evidence to a fact finder at trial in opposition to this "new" defense.

A reasonable investigation by CNA (which is mandated by *First Bank of Turley*) would have readily revealed Johnson's advertising activities if the same questions asked by the insurer (as quoted in the District Court's decision at 30a-31a) during suit against CNA had been asked at the time the defense was demanded

CONCLUSION

The petition for a writ of certiorari should be granted.

Respectfully Submitted.

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